

BEFORE THE
POSTAL REGULATORY COMMISSION

REGULATIONS ESTABLISHING
SYSTEM OF RATEMAKING

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THURSDAY
JUNE 28, 2007
10:00 A.M.

BEFORE DAN G. BLAIR, CHAIRMAN
POSTAL REGULATORY COMMISSION

1 APPEARANCES:

2 PANEL:

3 Dan G. Blair, Chairman, Postal
Regulatory Commission

4 Dawn A. Tisdale, Vice Chairman, Postal
5 Regulatory Commission

6 Ruth Y. Goldway, Commissioner, Postal
Regulatory Commission

7 Mark D. Acton, Commissioner, Postal
8 Regulatory Commission

9 Tony Hammond, Commissioner, Postal
Regulatory Commission

10
11 WITNESSES:

12 Ken McBride, President and CEO,
Stamps.com

13 David Hiller, Publisher and CEO, Los
14 Angeles Times

15 James E. West, Director, Postal and
Government Affairs, Williams-Sonoma,
16 Inc.

17 John Carper, Director of Mail and
Receiving Services, Pepperdine
18 University

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1 PROCEEDINGS

2 10:00 a.m.

3

4 CHAIRMAN BLAIR: The hearing will come to order.

5 I'm Dan Blair, Chairman of the Postal

6 Regulatory Commission, and I'm pleased to be able to

7 open this hearing in Los Angeles this morning. Today's

8 hearing is the second of three field hearings that the

9 Commission is holding on the development of a modern

10 system of rate regulation for market-dominant postal

11 products.

12 Before I start this morning, I'd also like to

13 introduce my fellow commissioners: Vice Chairman Dawn

14 Tisdale, Commissioner Mark Acton, Commissioner Ruth

15 Goldway and Commissioner Tony Hammond.

16 For the record, this hearing has been formally

17 noticed and is open to attendance by the general public.

18 My fellow Commissioners and I hope that citizens who are

19 attending today will find that this hearing provides an

20 interesting and informative window on postal

21 policymaking. The format precludes accepting

22 unsolicited testimony, comments or questions from the

23 public in this setting; however, anyone who wishes to

24 submit comments or suggestions may do so. The preferred

25 method is by way of the Commission's on-line filing

1 system, and we can provide that web address at the close
2 of my remarks.

3 The Postal Accountability and Enhancement Act
4 alters the postal ratemaking process. The Act gave the
5 Postal Regulatory Commission 18 months from the date of
6 enactment to issue regulations for a new system to
7 replace the lengthy and overly litigious one that has
8 been used since 1970. The Commission's goals are to
9 have the new regulatory framework in place by this fall,
10 despite the need to complete work on the last rate case.

11 We're actively soliciting input on how that new
12 rate system should look, and this morning's hearing --
13 along with the ones we held last week in Kansas City and
14 the next one in two weeks in Wilmington, Delaware -- are
15 a critical part of this rulemaking process. Holding
16 hearings outside of Washington, DC, are important if we
17 are to learn what postal stakeholders and mailers expect
18 from a new ratemaking system. We're working with other
19 federal agencies, including Congress, and we've sought
20 public comments through two Advance Notices of
21 Rulemaking and co-hosted a ratemaking forum with the
22 Postal Service that attracted over 200 attendees.

23 Transparency has guided the PRC throughout its
24 37-year history. As an independent agency exercising
25 regulatory oversight over the Postal Service, the

1 Commission, prior to the passage of the Reform Act,
2 conducted public, on-the-record hearings regarding rate,
3 mail classification, and major service changes. Our job
4 was to recommend cost-of-service rates.

5 All of this has changed with the passage of the
6 new Act. Congress wants the Postal Service to operate
7 in a more business-like manner. The Postal Service now
8 has the flexibility to raise rates under a price cap
9 system, as well as earn and retain profits. However,
10 with this added flexibility comes the need for greater
11 transparency and accountability, which is why Congress
12 significantly strengthened the Commission's regulatory
13 authority. In addition, the PRC is charged with issuing
14 annual rate compliance reports, financial accounting
15 reports, and acting on complaints, among its many new
16 responsibilities.

17 That is why we believe these field hearings are
18 important and will add value to this process. We are
19 pleased to have with us today four distinguished
20 witnesses representing the diversity within the mailing
21 community. We appreciate your willingness to share with
22 us your expectations for a new system and your views on
23 delivery service standards, which the Postal Service
24 must establish in consultation with the Commission.

25 At this time I would like to introduce our

1 panelists. We have David Hiller, the Publisher and
2 Chief Executive Officer of the Los Angeles Times; Ken
3 McBride, President and Chief Executive Officer of
4 Stamps.com; John Carper, Director of Mail and Receiving
5 Services of Pepperdine University; and James West,
6 Director of Postal and Government Affairs,
7 Williams-Sonoma.

8 We look forward to hearing from each of you and
9 learning how the Commission can best exercise and
10 fulfill its responsibilities under the Act. While this
11 is a formal hearing, its purpose is to really engage you
12 in a conversation in exploring ideas to help us as we
13 implement the reforms envisioned by the Act.

14 In the interest of time, we ask that you limit
15 your oral testimony to five minutes, and both your oral
16 and written statements will be made a part of the
17 official record.

18 Today's testimony, along with the other written
19 comments related to the new ratemaking system, may be
20 viewed on the PRC's website at www.prc.gov.

21 Before I call on our witnesses, I wish to thank
22 Council Member Bernard Parks -- at the request of Mayor
23 Antonio Villaraigosa -- and Council Member Parks's
24 legislative deputy, Gymeka Williams, for facilitating
25 today's hearing in City Hall.

1 At this time I'd like to yield to my fellow
2 Commissioners for any opening statements that you may
3 have.

4 Vice Chairman Tisdale?

5 VICE CHAIRMAN TISDALE: I didn't really prepare any
6 opening statement, but I would like to welcome all four
7 of the witnesses here and let you know that we look
8 forward to hearing from you.

9 CHAIRMAN BLAIR: Commissioner Acton?

10 COMMISSIONER ACTON: I just want to add it's great
11 to be back on the West Coast. I echo the Chairman's
12 remarks and I'm very appreciative of the fact that the
13 panel could join us today to share their insights and
14 experience, and I look forward to your testimony.

15 CHAIRMAN BLAIR: Commissioner Goldway?

16 COMMISSIONER GOLDWAY: We had field hearings last
17 week in Kansas City, and two of my fellow Commissioners
18 were able to give us special welcomes because they're
19 native Missourians. Well, I can offer my fellow
20 Commissioners a special welcome because I'm a
21 Californian. If not quite native, certainly I've earned
22 my stripes, once the former mayor of Santa Monica, and
23 I'm especially pleased that we took the opportunity to
24 come to Los Angeles and to come to California, which has
25 such a vibrant mailing community and has experiences and

1 needs that are very different from those in the center
2 of the country or on the East Coast.

3 The fact that the country developed so much
4 later here, that we have the Continental Divide between
5 us, the distances that have to be traveled to deliver
6 mail, all make the kind of issues that Californians deal
7 with in the mail somewhat different from what we hear in
8 Washington. So it's important that we're here listening
9 to people who represent the experiences in the
10 California area. Thank you.

11 Thank you as well to the panelists for coming
12 here today and presenting your particular point of view.

13 CHAIRMAN BLAIR: Thank you.

14 Commissioner Hammond?

15 COMMISSIONER HAMMOND: I want to thank the Chairman
16 for scheduling these hearings throughout the country so
17 that we can get a fresh perspective and different ideas
18 as we work on the organization of a new Postal
19 Regulatory Commission. Our first meeting in Kansas City
20 was quite productive, and being also a former Orange
21 Countian, south of here, I knew there were a good many
22 mailing stakeholders in this area, so I'm especially
23 glad that we were able to come to Los Angeles.

24 And thanks to Commissioner Goldway for being
25 able to provide commentary on all the sites as we've

1 gone around since she lives out here.

2 And I appreciate all of our panelists taking
3 time to be with us today. I know you've put a good deal
4 of effort into your comments, and I look forward to
5 hearing from you.

6 CHAIRMAN BLAIR: Thank you.

7 At this time I'd like to recognize that we have
8 several members in the audience from the Postal Service.
9 We have Anthony DuComb from the legal department. He's
10 the managing counsel for the Pacific area. We also have
11 Eduardo Ruiz. He's the marketing manager for the
12 Pacific area. We also have the postmaster of Palos
13 Verdes, Ms. Lee. So welcome. We appreciate
14 your attendance as well.

15 So at this time I'd like to welcome the
16 witnesses, and we'll start with Mr. McBride.

17 Thank you for coming, and we appreciate your
18 testimony and the effort you put forth today.

19 MR. MCBRIDE: Thank you very much. Good morning.
20 We're honored to be invited to testify here today in
21 front of the Postal Regulatory Commission. We're also
22 honored that the Commission chose Los Angeles as one of
23 its three public hearing locations.

24 As you may already know, Los Angeles is the
25 home of Stamps.com corporate headquarters since 1996,

1 when the company was founded. You may not also know
2 that the Southern California region has a higher
3 concentration of small and medium-size businesses than
4 anywhere else in the country. So we think it's a very
5 appropriate location for us to spend some time talking
6 about the mailing needs of a small business and the
7 importance of considering their needs in areas such as
8 Intelligent Mail. I plan to make that the focus of my
9 testimony today.

10 I'd like to just briefly introduce our company
11 and our industry to you, for those of you who aren't
12 familiar. Today, Stamps.com is the leading provider of
13 PC Postage in the U.S. We currently serve over 400,000
14 registered customers. The majority of our customers are
15 small businesses, but we also have home-based
16 businesses, home offices and individuals as users of our
17 service.

18 Stamps.com is itself a small business. We're
19 located here in Los Angeles. We have 175 employees, all
20 in one location.

21 In 1999 Stamps.com became the first company to
22 offer a software-only PC Postage solution, enabling
23 customers for the first time to print U.S. postage from
24 any internet-connected PC and ordinary printer.
25 Stamps.com's fundamental technology breakthroughs in the

1 late nineties are the cornerstone of all U.S. Postal
2 Service postage printed online or via website today.
3 Last year Americans printed over a billion dollars in
4 U.S. postage directly from a computer.

5 The PC Postage industry provides a range of
6 benefits to the U.S. Postal Service, which includes
7 things such as -- first, PC Postage provides a secure,
8 sender-identifiable mail piece, which reduces the amount
9 of anonymous mail in the mailstream. Second, PC Postage
10 software has always been CASS certified and includes
11 numerous address quality features that reduce the cost
12 to the U.S. Postal Service.

13 PC Postage is run from a centralized location,
14 so it provides real-time information, valuable real-time
15 data, to the U.S. Postal Service on customers' mailing
16 and shipping behavior. Fourth, mail produced with PC
17 Postage software uses Intelligent Mail barcodes
18 optimized to work with current and future USPS mail
19 processing systems. And there are other many benefits
20 too numerous to mention.

21 In addition, as IBI barcodes, or
22 information-based indicia barcodes, begin to get scanned
23 in mail processing centers in the near future, PC
24 Postage will become even more valuable to the U.S.
25 Postal Service in improving revenue protection,

1 enhancing mail security, deterring terrorism and in
2 providing valuable real-time information on customer
3 mailing and shipping behavior.

4 Stamps.com's business goals are closely aligned
5 with our regulator and most important business partner,
6 the U.S. Postal Service. We think it is very important
7 for the Commission to consider the needs of small
8 business as it develops a new modern system of rates.

9 As you know, small businesses are critical to our
10 nation's economy and strength. According to the U.S.
11 Small Business Administration, small businesses have
12 generated more than 60 percent of new U.S. jobs in the
13 past decade. They've also generated more than
14 50 percent of nonfarm private GDP.

15 Small businesses have historically been
16 underrepresented and less successful in postal rate
17 proceedings compared to large mailers. Because of the
18 complexity of the postal rate process and their diffuse
19 nature, small businesses have not gotten the
20 consideration they deserve. For example, extensive
21 worksharing discounts are available to large mailers,
22 but small businesses' practical opportunities to
23 participate in worksharing are limited.

24 To date, small businesses have no access to
25 worksharing discounts and they have no incentive to

1 adopt Intelligent Mail technologies. In fact, today
2 small mailers have to pay more to use PC Postage and
3 print a clean address with an Intelligent Mail barcode
4 than to handwrite the address and use a traditional
5 stamp.

6 The postal reform legislation's clear goal of
7 promoting Intelligent Mail presents an opportunity for
8 the PRC and the U.S. Postal Service to provide a
9 justifiable worksharing discount to small business
10 mailers. A new mail classification could be created for
11 low volume or single piece Intelligent Mail. Under such
12 a new classification, low volume or single piece letter
13 mail with address cleansed using CASS certified software
14 and with the corresponding Intelligent Mail barcode
15 could be made eligible for a discount. The discount
16 would be justifiable because of the address quality, the
17 barcode and the Intelligent Mail characteristics. These
18 make the mail less likely to be returned to sender for
19 improper address, they improve USPS processing
20 efficiency, which lowers USPS costs, and they provide an
21 information-rich mail piece upon which value-added
22 services and performance measures could be built.

23 Such a discount would encourage the adoption of
24 Intelligent Mail barcodes in the portion of the
25 mailstream that is now least likely and is not

1 incentivized to use barcodes and address cleansing. We
2 encourage the Postal Service and the PRC to establish
3 and improve a mail classification that provides small
4 businesses the opportunities and incentive to
5 participate in the benefits of postal automation and
6 Intelligent Mail.

7 In addition, Stamps.com believes the PRC should
8 establish a process that explicitly considers the impact
9 of decisions on small businesses whenever the effects of
10 rates on business mailers are considered.

11 In conclusion, thank you again for the
12 opportunity to provide our thoughts here today. The
13 intensive process you are engaged in is very important
14 and will affect millions of people and businesses for
15 many years to come. We urge you to keep the needs of
16 small business at the forefront as you work through this
17 process. They are the heartbeat of our economy and of
18 our future.

19 Thank you.

20 CHAIRMAN BLAIR: Thank you, Mr. McBride. I
21 appreciate that.

22 Mr. Hiller, welcome.

23 MR. HILLER: Good morning. Thank you, Mr. Chairman.
24 We appreciate the opportunity to be before the
25 Commission today to present our views regarding the

1 implementation of the new postal reform law, and we're
2 also very, very happy to welcome you and thank you for
3 coming to Los Angeles.

4 The Los Angeles Times is the nation's largest
5 daily metropolitan newspaper measured by circulation.
6 We just celebrated our 125th birthday, and we've been
7 very fortunate to have played a role in the growth of
8 Los Angeles and Southern California during that time.

9 Newspapers these days are dealing with a lot of
10 fundamental changes in our business, like most
11 industries and institutions, including the Postal
12 Service. Technology, especially the internet, has given
13 rise to an explosion of new information sources and
14 channels. In responding to our consumers' and
15 advertisers' demand for choice, we now create and
16 distribute an array of products and services serving the
17 needs of the vast and diverse market that is Southern
18 California, and the U.S. Postal Service is an important
19 part of how we reach our customers.

20 Our largest use of the mail is the delivery of
21 our total market coverage, or TMC, products. Through
22 our TMC products we're able to help our advertising
23 customers reach the complete market area by delivering
24 advertising inserts in the paper and also mailing the
25 same inserts to nonsubscribers. Here in the Los Angeles

1 area, that is some 5 million households covering an area
2 of about 35,000 square miles, or nearly the size of
3 Ohio.

4 In addition to our shared mail products, the
5 Los Angeles Times has a growing solo mail operation as
6 well. So all this amounts to a very large investment
7 with the Postal Service. In L.A. we spend about
8 \$40 million annually. Across all of The Tribune
9 Company, my parent company, including ten other
10 newspapers, the amount is nearly \$150 million. So we
11 appreciate the importance of what the Commission is
12 undertaking in fashioning a new regulatory regime that
13 rationally and fairly addresses the new marketplace
14 realities we all face, but is also faithful to the
15 Postal Service's public service obligations.

16 Specifically I'd like to comment on three areas
17 for your consideration:

18 First is the treatment of so-called negotiated
19 service agreements. We think in short it's very
20 important that NSAs continue to be reviewed by the
21 Commission before they take effect. Congress referred
22 to the NSAs in the new postal law and essentially
23 codified your existing rules regarding NSAs, really
24 acknowledging that the Commission got this right. In
25 particular, Congress said that a requirement for NSAs is

1 they don't cause any unreasonable harm in the
2 marketplace.

3 Taking an example of particular concern to us,
4 special treatment for our saturation direct mail
5 competitors could cause real harm on the marketplace.
6 It is a very big market, tens of millions of dollars in
7 Southern California, and it is a complicated business,
8 and it's quite easy to imagine that even a small change
9 in the arrangements for any given competitor could cause
10 a very significant competitive shift in where the
11 advertising inserts are sent and used by our customers,
12 and could dramatically impact the competitive position
13 of ourselves and our competitors, but, worst case, not
14 only with no real benefit for consumers of the Postal
15 Service but it could cause real harm as inserts,
16 advertising money moves around, somebody loses it, maybe
17 pricing changes, customers lose choices, competitors
18 lose money, and the Postal Service would lose revenue.

19 Now, here in Southern California it is
20 especially complicated, as we are both competitors and
21 joint venture partners with our largest competitor ADVO,
22 and the arrangements that were constructed for that
23 joint venture were negotiated over a long period of time
24 and very, very dependent on both the existing
25 marketplace realities, but also the regulatory

1 framework, in particular the postal framework that we
2 were dealing with.

3 And it is not an exaggeration to say that any
4 significant change in the relative terms under which we
5 compete could have a really dramatic impact on the
6 marketplace and on our customers, and as well as on the
7 Postal Service. So that being the case, we urge,
8 knowing that one of the objectives in the reform is also
9 to streamline the processes and speed things up, even in
10 that scheme we would really strongly urge the Commission
11 to continue its practice of reviewing the NSAs prior to
12 the time they would go into effect.

13 The second area I'd like to talk about is
14 costing methodologies, and we urge you to look hard at
15 how the Postal Service allocates its costs. I was very
16 surprised to learn that the Postal Service does not
17 attribute nearly a half or so of its total costs to
18 particular products. That leaves you obviously with a
19 very considerable amount of overhead or fixed costs
20 that, as it's spread across the product categories and
21 reflected in pricing, can have very dramatic impacts on
22 those of us who use the different categories of mail
23 service.

24 The postal reform law gives you all the
25 authority to prescribe the costing methodologies to

1 assess whether postal rates cover their costs. And we
2 urge you as a matter of promoting good business
3 practices for the Postal Service to use this authority
4 aggressively. It will help the Postal Service do a
5 better job; it will help customers; it will help the
6 public understand with some visibility and insight
7 transparency into how the costs are allocated and rates
8 are set. Particularly important, as once the costing
9 methodologies are done, it will help streamline and
10 shorten the amount of time that you need to be taking in
11 the review of general rate changes.

12 The third area I'd like to comment on is the
13 Postal Service proposed so-called flats sequencing
14 system or FSS, which could pose very serious service and
15 cost problems for newspapers and customers and we think
16 ultimately the Postal Service.

17 Now, currently the Los Angeles Times, like most
18 daily papers, prepares our -- let's call it high density
19 and saturation TMC mailings together, and delivers them
20 to the same destination entry units at the same time.
21 And one of the things we're very proud of, we've got
22 really great working relations with the Postal Service,
23 including at the local distribution center level, and we
24 do it in ways and on days that work in terms of the
25 volumes that are coming into the local distribution

1 services. We think we've got a system and a set of
2 relationships that work well for the Postal Service,
3 including the carriers, works well for our customers and
4 the newspapers.

5 Now, unfortunately we understand that the
6 current thinking might be about FSS that we would have
7 to separate the high density mailings, which would be
8 the ones that go to less than 90 percent of the
9 households, from the saturation or 90 percent and above,
10 and that the high density ones would have to go
11 separately to the sectional center facilities for
12 separate handling and distribution and sorting on the
13 new FSS equipment that's being invested in.

14 And our saturation mailings then would still be
15 going to the local delivery units, which means that we'd
16 be sending the same product going to the same --
17 virtually the same -- sets of houses and neighborhoods
18 through two separate mailstreams. Not only would that
19 bifurcated system raise our costs and jeopardize our
20 ability to meet the delivery time demands of our
21 advertisers, but it could, worst case, also give our
22 competitors an undue service and price advantage, as
23 their saturation products would continue to enter the
24 mailstream at the lower rates and in the local
25 facilities.

1 Now, more than that, it's our understanding
2 this also won't work as well for the Postal Service.
3 May not indeed work in the new machines, given the
4 nature of the inserts that are being mailed. Would in
5 fact, our understanding again, unnecessarily add volume
6 and work at the sectional service center level, and do
7 all this and also add transportation costs and back out
8 to the field, and frankly make all those changes, add
9 those costs at a time when we've got a system which we
10 think works perfectly well, and our understanding from
11 the Postal Service is that it works well also.

12 So these are the three areas we'd invite your
13 attention to. We are again very grateful to you for
14 coming to Los Angeles to hear our views, and we'd be
15 happy to answer any questions as well that you might
16 have.

17 Thank you.

18 CHAIRMAN BLAIR: Thank you, Mr. Hiller.

19 Mr. West.

20 MR. WEST: Thank you, Mr. Chairman. It's indeed a
21 pleasure to be here with you, and I'd like to thank the
22 Postal Regulatory Commission for the opportunity to
23 present testimony on the development and implementation
24 of the modern system of rate regulations required by the
25 PAEA. We also commend the Commission in accelerating

1 the process of enactment of the law and its new
2 requirements. We think it's very valuable.

3 Williams-Sonoma views PAEA as providing much
4 needed simplification and regularity in establishment
5 and adjustment of postage rates and the structure of the
6 postal operations, and will overall be of great benefit
7 to the mailers, business mailers, the general public, as
8 well as the United States Postal Service.

9 Additionally we place great value in its goal
10 of positioning the USPS as a valuable enterprise that's
11 capable of change and adaptation to meet the needs of
12 the changing business environment.

13 To underscore the importance of the USPS to
14 Williams-Sonoma, I'd like to tell you that since we
15 first introduced our "Catalog for Cooks" in 1972, we
16 have grown to be a nationally recognized brand with
17 approximately \$4 billion in annual sales, somewhere
18 around 585 stores in 43 states. This growth has been
19 driven and supported exclusively by our catalogs. Even
20 with the growth of internet marketing, we still have
21 annually over 95 percent of our annual budget is spent
22 on catalog production and mailing. And the United
23 States Postal Service at about \$140 million a year is
24 our largest single vendor.

25 We couldn't have done it without the Postal

1 Service. We wouldn't have gotten where we are today.
2 We depend on the Postal Service exclusively as one of
3 our very key strategic partners.

4 There are several points that I would like to
5 address about PAEA and its implementation. And first,
6 with regard to the annual rates, in our opinion one of
7 the most important benefits of PAEA will be the
8 established timing and frequency of rate adjustments.
9 There's a lot of implications about this and a lot of
10 specific various things to address, but I really want to
11 encourage the Commission to do what they can to adopt a
12 midyear date for adjustment that covers all classes of
13 the market dominant products.

14 When I specify "all classes" I know there's
15 been discussion about we'll address one class right now
16 and possibly another subclass at a later time. We feel
17 that to do varying adjustments of rates during different
18 times of the year would be very cumbersome and difficult
19 for the industry to work with. An annual midyear date,
20 such as July 15, preceded by the appropriate advance
21 notification, occurs at a time that's favorable to the
22 fiscal planning cycle of many companies, including
23 Williams-Sonoma. Such timing would minimize a variable
24 that can undermine any successful business plan.

25 I think this was demonstrated recently by the

1 last rate case, when unexpected adjustments came down at
2 a time when most companies had completed fiscal
3 planning, and the surprise changes became very difficult
4 to deal with. Further, following the implementation of
5 the new rates in May of this year, any additional
6 increase in postage is an untenable proposition that
7 would be further devastating to catalogs and other
8 standard class mail that are already reeling from the
9 unprecedented and unanticipated increases.

10 We believe it's essential for the USPS to begin
11 modern ratemaking as prescribed by PAEA and thus
12 eliminate the need for the omnibus rate case under the
13 old regulations and protect standard class mailers from
14 another substantial increase.

15 With respect to the annual schedule of rate
16 changes, we strongly support the position that a key
17 element should be the recognition of the benefits that
18 would accrue to both mailers and the USPS of
19 accommodating short-term, intra-year variations in the
20 schedule that would reflect marketplace considerations
21 and internal USPS workload capacity. Variations such as
22 seasonal rates and day-of-the-week delivery rates would
23 be an attractive and welcome benefit to catalog mailers
24 as well as others. I cannot overemphasize this point,
25 and encourage due consideration and encouragement on the

1 part of USPS, especially given the burden placed on most
2 catalog mailers as a result of the last rate case.

3 With regard to the Notice of Intent to Change
4 Rates, here again there's been a lot of discussion about
5 how far in advance notification needs to be issued.
6 Direct marketing program and campaign planning,
7 particularly catalog production schedules, typically
8 require commitments for paper and other production
9 elements far in advance of actual mailing -- often well
10 in excess of 120 days. The programming and software
11 requirements of our vendors and suppliers can easily
12 exceed that 120 days for development and testing, and
13 the consideration and programming for any mail
14 preparation and entry changes adds even more complexity
15 and planning.

16 In recognition of this, we believe a similar
17 commitment to a formal advance notification on the part
18 of the USPS is very appropriate. Additionally, I feel
19 that this notification schedule should not preclude the
20 consideration of advance communications and discussion
21 of proposed rate considerations with key industry
22 mailers and industry organizations. This early
23 discussion, which of course would come with firm
24 commitment, would position the USPS as a partner with
25 its business customers, much in the manner of other

1 vendors and suppliers in corporate business. A goal of
2 PAEA is the establishment of the USPS as a
3 customer-centric organization, and we feel this would be
4 a first big step.

5 Basically I'm addressing here just that we need
6 to have more discussion up front and more on a
7 one-to-one basis with the USPS. The rate regulation and
8 the rate establishment programs that we've had in the
9 past required a lot of litigation, but as an individual
10 mailer I very rarely, if ever, had any direct
11 communication with the USPS with regards to a rate
12 increase. We feel the time now is for a change. The
13 new regulations provide that. And I really encourage
14 working towards that goal.

15 The complaint process -- in that area I would
16 suggest caution that the process that's going to
17 establish complaints would be done in such a manner that
18 the process does not evolve back into the often
19 contentious and litigious rate case system we are trying
20 to leave behind. The rules must be defined such that
21 the basis for complaints and their resolution is clear
22 and quickly resolved.

23 The exigency circumstances is another area of a
24 lot of discussion right now, and we support the position
25 that it would not be prudent to try and define the

1 circumstances beyond "extraordinary and exceptional." I
2 think the USPS's position with new regulations in such a
3 way that it can manage their rates and keep revenues at
4 a substantial level and meet their needs, and
5 "extraordinary and exceptional" need to be just that.
6 But we firmly believe that there must be rules that
7 dictate timely evaluation for the continued need of any
8 adjustment that's based on an extraordinary circumstance
9 and any such adjustments be not considered as part of
10 any rate baseline consideration and rate adjustment.

11 The CPI, which is another big part of the rate
12 establishment process, needs to be defined in a very
13 concise manner, clearly defined, as an annual CPI and
14 not a proposed single month or single point of reference
15 for CPI as proposed by the Post Office. The annual
16 average is that which most people expect, and I think
17 anybody in the commercial mailers would see any
18 variation to the annual CPI as a means of trying to
19 circumvent the rate processes as established.

20 Shifting cost burdens, as we heard, is another
21 area of concern, and I cannot overstate the fact that it
22 is a great concern of many of my peers in the business
23 from the threat of shifting cost burdens to mailers as a
24 consequence of the USPS and postal changes. There are
25 considerable changes imminent to both entry and

1 preparation qualifications, mostly as a result of the
2 network redesign and FSS, and we need to be assured that
3 these resulting costs will not become hidden rate
4 increases or reasons for failure to meet established
5 service standards. Those of us in the industry fully
6 support and encourage the proposed changes, but we have
7 to participate in the planning and share in the savings
8 that are going to be realized.

9 I also want to mention the NSAs, or negotiated
10 service agreements. I have been evaluating this
11 opportunity for Williams-Sonoma for over a year and I
12 find that it continues to appear to offer a benefit to
13 us, but despite the outstanding work and dedication of
14 the internal USPS staff, it's a long and expensive
15 process. I would ask that guidelines be established to
16 expedite the process as soon as possible and make this
17 truly a workable proposition. It should be simple in
18 the evaluation of benefit, be given the adequate USPS
19 staff resources for guidance and approval, and it must
20 be faster and less costly. An NSA has a promise of
21 making the USPS a more competitive organization in
22 today's marketplace, and this is a goal that must be
23 achieved. I for one would like to make it work, but in
24 its current structure it's difficult. Mr. Hill
25 references and I fully support his position of overview

1 on the part of the regulatory Commission in the NSA
2 approval process, but I'm looking for an easier way to
3 make it work.

4 Service standards and measurement is another
5 very key area. Service standards and measurement as
6 they affect standard mail are of key importance to
7 Williams-Sonoma and all of the direct market industry.
8 As I noted when I began, Williams-Sonoma depends on the
9 USPS as a key partner in achieving its business goals,
10 and their goal is the timely and accurate delivery of
11 literally 390 million catalogs annually over 65
12 different mailings.

13 At our business peak, our sales planning
14 and work scheduling of nearly 45,000 associates
15 among the stores, call centers and distribution
16 facilities depends on delivery accuracy of our catalogs
17 to our customers, on the date our strategic marketing
18 plan dictates. I would note that strategic market
19 planning means getting our catalogs to our customers
20 when they are most likely to respond, not when we have
21 merchandise at the stores or when we're prepared to
22 answer their call and process orders. Our customers are
23 driving the business.

24 Our print partners do an exceptional job of
25 planning for delivery through the USPS network, but
26 ultimate success relies on the USPS meeting its

1 standards. We can adjust our process planning, but that
2 guidance from the USPS must be accurate.

3 I have currently had the privilege of participating on an
4 MTAC work group that is addressing this issue, and I feel the
5 standards that are currently being considered are
6 adequate. But these recommendations must not require
7 any guesswork on the part of mailers, and the proposed
8 guidelines must define how to plan or implement the
9 standards when delivery periods span a window that
10 includes weekdays and/or holidays. And due to the
11 effect on anticipated processing and delivery time,
12 different guidance for peak high volume workload periods
13 must be considered. These standards must be subject to
14 regulatory re-evaluation and amendable to reflect
15 improvements in USPS operational capabilities.

16 Further, standards are almost meaningless
17 without measurement, and I encourage the establishment
18 of measurements as soon as possible. Until such time as
19 new USPS tools are in place, I would ask that
20 consideration be given to outside services to provide at
21 least basic documentation. An example of this would be
22 the partnership of USPS and PricewaterhouseCoopers that
23 was in place about ten years ago, similar to the current
24 EXFC. That program ten years ago, which was titled
25 EX3C, it was accurate, timely and precise in its

1 identification of delivery problem areas and overall
2 performance. It actually offered us an opportunity to
3 adjust staffing levels in reaction to actual catalog
4 delivery.

5 I would conclude on this point that the
6 standards and reporting should have a goal of providing
7 advance notification and guidance, as well as after the
8 fact measurement. Our mailing planning is much more
9 accurate when we have advance notice of problems and
10 problem areas that are the exceptions to standards, and
11 we would like to hear from the USPS as a source rather
12 than our usual anecdotal information. The standards and
13 measurements should evolve into a system that provides
14 guidance and information that allows us to enter our
15 mail into the USPS in a manner that ensures that they
16 will be able to meet the established delivery standards.

17 For a considerable number of years,
18 Williams-Sonoma has had the privilege of being assigned
19 a National Account Manager. While I find this to be a
20 benefit, it does not come without a certain level of
21 frustration. As a part of the USPS sales organization,
22 the role of the National Account Manager focuses on the
23 sales of USPS products, but in my opinion the USPS, if
24 the USPS is to become a customer-focused organization
25 and function as a truly competitive business, this

1 National Account Manager must be the lead representative
2 of the entire USPS organization and be fully equipped
3 and knowledgeable to work with its customers and speak
4 to the entire range of products, services and changes
5 within USPS.

6 In the new organization I would ask that my
7 account managers have the ability to advise and work
8 with me on postal issues that concern me the most. This
9 is the way that we've worked with all other suppliers,
10 and the USPS should be no different. This individual
11 should be the first to come to me with anticipated rate
12 increases before it is generally announced. Likewise,
13 they should be able to guide us in managing the new
14 requirements for mail design and network evolution, as
15 well as mail preparation and processing for new systems
16 such as FSS. We have and will continue to work with our
17 print and mail preparation partners, but I feel that the
18 time has come that we should be able to receive
19 firsthand knowledge of the USPS changes directly from
20 the USPS.

21 Near the conclusion of the last rate case I
22 heard that PMG Potter wanted to hear directly from the
23 mailers. I believe he did hear directly and in great
24 numbers, but regretfully the ultimate outcome was not
25 more favorable to standard mailers. But we do applaud

1 this attitude and encourage it to continue. Direct
2 communication must flow both ways. It is the only way
3 to promote true partnership and remove the secrecy and
4 surprise that has been inherent in the postal system in
5 the past. Once again, I encourage a new definition of
6 the USPS client and account managers that represent the
7 entire organization and its operation.

8 I would conclude my remarks by saying that the
9 implementation of the new regulations must position the
10 USPS to become a competitive and customer service
11 organization. This includes the way the organization
12 manages their larger accounts and the way that they
13 manage relations with all standard mailers. Standard
14 mail is now the mainstay of the USPS business, and the
15 standard mailers want to move forward in a relationship
16 of more openness and partnership.

17 We believe that our catalogs bring true value
18 to the mailstream. Many customers request our catalogs,
19 and we are told that they look forward to receiving
20 them. Williams-Sonoma catalogs can even be found for
21 sale on eBay. I also have to emphasize that catalogs
22 are unique and a large part of the standard class mail,
23 and that all catalogers feel that we provide
24 increasingly greater value to the daily mail delivery
25 and the mail moment in the U.S. household. Ever since

1 the introduction of catalogs by Montgomery Ward, Sears
2 and their predecessors, catalogs have been a part of the
3 American way of life and will continue to do so. I'm
4 proud to be able to tell you that when The New York
5 Times prepared their Millennium capsule in the year
6 2000, which will be opened in the year 3000, they
7 included not a book or a piece of literature, but rather
8 a Williams-Sonoma catalog to represent today's culture.
9 To me, that is a very powerful testimony to the iconic
10 position of the catalog in today's world.

11 Catalogs are a major part of advertising in the
12 U.S., and as we can testify, at Williams-Sonoma catalogs
13 drive the world of e-commerce. Multichannel marketing
14 is the successful strategy in modern communications and
15 retailing today, and catalogs are the cornerstone.
16 Therefore the USPS must embrace every opportunity to
17 encourage and foster their growth. The effects of the
18 last rate case will be devastating to the industry, but
19 implementation of the new ratemaking regulations and
20 PAEA in general offers the opportunity to negate that in
21 the near future. We encourage you to adopt rules that
22 work in favor and the best interests of both commercial
23 mailers as well as the USPS.

24 Thank you.

25 CHAIRMAN BLAIR: Thank you, Mr. West.

1 Mr. Carper, welcome, and we appreciate your
2 testimony. Please proceed.

3 MR. CARPER: Thank you, Mr. Chairman. I appreciate
4 the opportunity to testify before this Commission in
5 this case.

6 Pepperdine University is an independent
7 medium-sized university enrolling approximately 8,300
8 students in five colleges and schools on the
9 university's 830-acre campus overlooking the Pacific
10 Ocean in Malibu, California. Courses are taught in
11 Malibu, six graduate campuses in Southern California and
12 at international campuses in Germany, England, Italy and
13 Argentina.

14 Pepperdine is a Christian university committed
15 to the highest standards of academic excellence and
16 Christian values, where students are strengthened for
17 lives of purpose, service and leadership. In my
18 position at Pepperdine University, I have oversight of
19 all mailing operations for the university, including
20 incoming mail, outgoing mail, on-campus student
21 mailboxes, approximately 4,000, and the receipt of all
22 incoming and outgoing freight shipments for the
23 university.

24 The mail sent by Pepperdine consists primarily
25 of First Class, Standard Mail and parcel services. In

1 the last complete fiscal year we sent over 672,000
2 pieces of First Class mail and parcel services, with a
3 total postage cost of about \$422,000, and more than
4 1,621,000 pieces of Standard Mail, with a postage cost
5 of \$270,000.

6 The university is deeply concerned with both
7 the size and the predictability of postal rate
8 increases. Postal rate increases drain money from our
9 educational mission. We were hard hit by the large
10 increase in nonprofit rates in the most recent rate
11 case, especially for flat-size mail.

12 The timing of rate increases is also an issue.
13 Our fiscal year begins on August 1 of each year.
14 Because the postal rate increases typically occur in the
15 middle of our fiscal year, the unpredictable size of
16 recent postal rate cases make annual budgeting
17 difficult.

18 I understand that the new postal legislation
19 will tie postal rates more closely to changes in the
20 consumer price index rather than to the Postal Service's
21 own revenue requirements. This is an encouraging step
22 because of its potential for making postal rate changes
23 more predictable. But the Commission needs to take
24 several steps to make sure that the CPI-based adjustment
25 mechanism works as designed by Congress.

1 In particular, the Commission needs to make
2 sure that the rate adjustment is not circumvented by
3 uncompensated changes in the quality of mail service or
4 the work that the Postal Service requires mailers to do.
5 Compliance with the index is likely to understate the
6 true cost of postal service, for example, if the quality
7 of postal service is allowed to degrade.

8 The CPI-based rate cap could also be
9 circumvented by Postal Service unfunded mandates that
10 force mailers to do more work without offsetting rate
11 discounts. The university is particularly sensitive to
12 this issue. We, like many other universities, already
13 perform the final delivery of most of our incoming mail
14 to the department offices and dormitory mailboxes
15 throughout our campuses. The Postal Service merely
16 drops off the mail at a centralized mail room. We
17 receive no rate discounts, however, for performing this
18 costly work. Likewise, we perform much of the initial
19 collection of mail generated on our campuses -- again,
20 without compensation from the Postal Service.

21 The Alliance of Nonprofit Mailers has discussed
22 the technical aspects of this issue in greater detail in
23 their comments. I respectfully urge the Commission to
24 put into effect adequate safeguards against abuse in
25 this area.

1 Another important area involves worksharing,
2 particularly presorting, barcoding and related
3 activities. The university, like most of its peers,
4 spends a great deal of resources to submit mail that is
5 economical for the Postal Service to handle. We do so
6 in part as an act of public citizenship and in part
7 because we believe that the university or private
8 vendors often can perform barcoding and mail sorting
9 more economically than the Postal Service can.
10 Worksharing is, among other things, a way to protect
11 ourselves, at least in part, from postal rate increases.
12 But this activity can flourish fully only if the
13 discounts offered by the Postal Service for worksharing
14 fully reflect the costs that the Postal Service saves.
15 We urge the Commission to adopt standards to ensure that
16 our cost-saving efforts are fully recognized in the
17 rates.

18 Service standards are also an important issue
19 for the university. We are very concerned in particular
20 with the timeliness of mail delivery, particularly of
21 Standard Mail. Standard Mail service has become
22 increasingly -- and unpredictably -- slow within the
23 past three years. This has been especially true with
24 the closing of the Marina processing center in the Los
25 Angeles district. Some mailings have been delayed as

1 little as a day and some as much as a month. This is
2 not just a local problem, but we have experienced mail
3 being sent to addresses throughout the United States.
4 On average our mail takes ten days to be delivered in
5 the Los Angeles area. Unreliability of mail service
6 makes the efficient and effective planning of mailings
7 for events almost impossible.

8 For these reasons we urge the Commission to
9 adopt a measurement system that provides objective,
10 detailed and timely information on mail service
11 performance to each three-digit zip code prefix.

12 Finally, we greatly appreciate the effort being
13 made by the Commission to establish the new ratemaking
14 system as quickly as possible. While the law allows the
15 Commission until June 2008 to establish the new system,
16 the Commission has taken an aggressive approach to make
17 it ready for use this fall. By doing so, the Commission
18 will allow the Postal Service to next adjust rates under
19 the new system, rather than filing yet another omnibus
20 rate case. We strongly endorse the use of the new
21 system for the next rate adjustment and strongly oppose
22 another omnibus rate case.

23 Thank you for your time and attention to these
24 important matters, and I'd be pleased to answer any
25 questions. Thank you.

1 CHAIRMAN BLAIR: Mr. Carper, thank you.

2 At last week's hearing in Kansas City I think
3 that we found the most value, rather than engaging in
4 traditional question-and-answer sessions with each of
5 the witnesses, is that we kind of turn this into a
6 conversation. I think that's the best way of eliciting
7 the best views from you and to get the questions that
8 you might need and get questions from you in order for
9 us to stimulate our thinking in this area.

10 So I would urge you to -- I know that this can
11 sometimes be an intimidating scenario, testifying and
12 answering like this, but I would just urge you to kind
13 of relax a little bit and think about the big picture
14 and where we are going to go in this.

15 So I'll ask some questions and I urge my fellow
16 commissioners to also engage in this conversation with
17 us. And we'll go back and forth, and I think we can get
18 the best bang for the buck that way.

19 One of the ideas that I've heard bandied about
20 today is our role in the establishment of new modern
21 service standards. The Commission's role is one of
22 consultation, and the Postal Service is the one who has
23 the power of the pen. But we think that our role should
24 be -- and it has been thus far -- recognized, and we
25 intend to engage in vigorous consultation, and we look

1 forward to that over the course of the next few months.
2 But as we move into that realm, what are your
3 ideas on what you think the establishment of these new
4 modern -- I think the statute calls them "modern service
5 standards" -- what do you think they should look like?
6 From your point of view, what do you think we should be
7 most concerned about in carrying forward a message from
8 key stakeholders like yourselves?

9 MR. HILLER: Mr. Chairman, I might begin, if I
10 could. One thought I would have on it is that we gather
11 a lot of insight and input from the people who are
12 closest to the marketplace and closest to the customers.
13 And I'm put in mind of the effect of how a lot of people
14 in my company who are out in the field have established
15 really great market-based, highly efficient
16 collaborative solutions for our mutual customers,
17 working with the people in the local distribution
18 centers.

19 And I know one of the things is -- we're a
20 reasonably large company, and one of the things that we
21 struggle with is sometimes trying to make too many
22 global decisions that are too far away from the people
23 who really know what's going on in the business, know
24 what customers really want, know how things work -- the
25 postal carriers and the people who run the local

1 operations. And we've seen in reference to that service
2 issue we talked about, about the high density and type
3 of mail distribution, that there's a lot of magic and
4 creativity close to the customer and way down in your
5 organization where people know how the business works.

6 The one thing I'd set out there is let's take
7 advantage of the people in all of our institutions who
8 really know what's going on and how to make things
9 great.

10 CHAIRMAN BLAIR: Any other witnesses want to
11 comment?

12 MR. WEST: Yes, if I could, I'd like to speak to
13 some of the things that Mr. Hiller just brought up.

14 As I said in my testimony, I've been a part of
15 an MTAC work group that is addressing the establishment
16 of these modern delivery standards. I think so far
17 we're delivering a good product, but to reflect what
18 Mr. Hiller said, I think the Commission should recommend
19 that the Post Office be sure that the recommendations
20 they're issuing are achievable, going out -- you can
21 take the approach that, okay, the Post Office says we
22 should be able, if you enter your mail, this kind of
23 classification of mail, at this spot, we should be able
24 to deliver it in "X" number of days.

25 Before it's finally committed to and becomes

1 the formal standards, I would encourage you to ask them
2 to go out into the field and work with the people that
3 are actually delivering the mail and make sure that
4 these standards are some standards that they can support
5 and achieve, as well as the postal management feels it's
6 something that they should be able to do.

7 So I think they need to go out and validate the
8 standards in the field, make sure the field can support
9 the standards and make sure that they're achievable.

10 CHAIRMAN BLAIR: One idea has been that they should
11 be reporting on these standards, not just one nationwide
12 composite number, but on a regional or local basis or
13 some kind of breakdown. What do you think about that?
14 Do you like the idea of one composite number reflecting
15 achievement of the standards nationally, or do you think
16 it should be broken down more regionally or -- and also
17 time wise, how about quarterly, monthly, or is once a
18 year sufficient for you?

19 MR. HILLER: I'd quote the old Speaker of the House,
20 Speaker O'Neill, who said, "All politics is local." I
21 think in a lot of ways we find all service is local.
22 You can get lost in the national average, and we see
23 this every morning in terms of we sit and we talk about
24 how did we do in terms of getting our paper out to
25 people's doorsteps at 5:00, 5:30 or 6:00 in the morning.

1 And some of us say, well, you can look at that and say,
2 well, we average 5:45. Well, if a bunch of people got
3 them on time and several hundred people didn't get them
4 until noon, you lose a lot of data and a lot of customer
5 experience and emotion in the average.

6 And so I think that national standards and
7 performance measures would be a really good thing, but
8 in terms of again knowing how it's actually impacting
9 real people with real lives out in the community, I
10 think you've got to take it to the local level.

11 MR. WEST: I would agree. You can't react unless
12 you have more localized information. If there's a
13 problem due to some situation in a given area, say,
14 Southern California, the Pacific Northwest, unless you
15 know that ahead of time, you can't plan for it. In the
16 industry, we're going to be ready. If you tell us how
17 much time you need to get there, we'll react and we'll
18 get it to you in time to get there. But we really need
19 to know accurately how much time the Postal Service
20 needs to deliver it.

21 CHAIRMAN BLAIR: Commissioner Goldway.

22 COMMISSIONER GOLDWAY: I wanted to follow up and ask
23 some specific questions on this. We have various ways
24 in which we, once the service standards are established,
25 can begin to measure them. The Postal Service has to

1 agree to report what they are to begin with, but then
2 you suggested that we might actually have an outside
3 agency measure the actual performance. Mr. West did.
4 And Mr. Hiller pointed out that even if you deliver
5 90 percent of the time, if there's 10 percent that
6 doesn't get delivered, that's a problem. And that in
7 the Postal Service, that 10 percent could be -- as you
8 suggested, it could be an hour late or it could be six
9 hours late; in the Postal Service it could be a day late
10 or it could be ten days late.

11 So I think we need to hear from you about
12 service standards that the Postal Service adopts that
13 include not just averages and maybe not just local
14 reporting areas, but also some measurement of the tail
15 of mail, the measurement of what doesn't get delivered
16 at the time it should. For people who, like the large
17 mailers we have in the middle of our panel, you can work
18 with the Postal Service and get big deliveries to the
19 various units and know what your delivery system is
20 likely to be. For the small business mailer or the
21 nonprofit university that's got a mix of mail, there are
22 concerns about accepting the mail, critical entry time,
23 delivery of mail as well. And those things need to be
24 added to the service definitions and measurement
25 standards.

1 So -- sorry to take this long to talk -- but my
2 question is really to Mr. Carper and Mr. McBride: What
3 do you think about service standards that include
4 critical entry time when the mail has to be at the
5 Postal Service, critical delivery time when it gets to
6 the small business, for instance, who wants to get his
7 checks so he can deliver them, get them deposited in the
8 bank, and to what extent the tail of the mail is
9 important to the small user as opposed to the big
10 mailer?

11 MR. CARPER: If I may, as a small mailer that does
12 national mailing and regional mailings, the
13 predictability of delivery, of knowing a window of when
14 the mail is actually going to be able to be delivered --
15 if you're planning an event, you are going to have a
16 certain event for the university, the alumni department
17 or something of that nature, you start planning in
18 advance for that and you need to know from the Postal
19 Service, when is that mail going to hit the home of your
20 alumni? When are they going to receive that piece?
21 Because if you plan and it hits the next day, you may be
22 a month in advance and you may be too far in advance.
23 If it hits after the event takes place, it's wasted.
24 We've had experience on both sides.
25 If we have a predictability of when it's going

1 to be delivered, give us a window -- two, three days,
2 whatever -- but the Postal Service, set a standard that
3 they know, as Mr. West has said, when they're going to
4 be able to deliver this mail to the recipient. Let us
5 know what those standards are. We can then adjust our
6 schedules and go to our customers and tell them, this is
7 what you need to plan, how far in advance you've got to
8 make your mailing.

9 Entry for me in particular is not difficult
10 because I only have one point of entry, and I have a
11 time frame there when I have to have it to Malibu in
12 order to go out and be sent to the plant that day.
13 Larger mailers, they have the ability to drop ship and
14 go other places, but small mailers like myself, we work
15 pretty much closely with the local post office, good
16 rapport there, and we know when we have to have it
17 there.

18 COMMISSIONER GOLDWAY: But you're not getting the
19 information at the local post office level as to where
20 it is accurately being delivered throughout the nation.

21 MR. CARPER: No, and that's what we need, is what
22 are the standards of when we can expect it to be
23 delivered to the household, either in New York City or
24 in downtown Los Angeles, wherever they live. Let us
25 know when it's going to be delivered so we can plan for

1 our mailings. What's the time frame? How are you going
2 to handle this?

3 I've been told in the past -- they've been
4 doing better lately, and I appreciate that, but I've
5 been told that it should take in Los Angeles a certain
6 amount of time, and I'm not hitting that. My time is
7 double what they're telling me. They say six days on
8 average. I'm well beyond that, on average.

9 COMMISSIONER GOLDWAY: Is this for Standard Mail?

10 MR. CARPER: Standard Mail. Automation, 11-digit
11 barcoded, as clean as I can give. And I seed it, so I
12 know. I receive every piece of Standard Mail the
13 University sends out, so I know when it hits my home and
14 so I can tell. I know when I deposit it and when I
15 receive it. If I have a predictability, a window, two
16 or three days of when I know and the Post Office
17 guarantees that that's what's going to happen, then I
18 have information I know. But getting information back,
19 if the Commission can encourage the Postal Service to
20 give us as mailers back the details, when did it
21 actually hit, so we know what is happening, what are the
22 actual facts, so that we can plan our mailings and
23 deposit in time so that we know that it's going to get
24 where we need to get it on a timely manner.

25 MR. MCBRIDE: I agree with everything that's been

1 said. For small businesses, ourselves being one,
2 predictability is very important. We send out a lot of
3 direct mail ourselves, about 15 million pieces a year.
4 And being able to understand the delivery times helps us
5 to be able to staff our call center, helps us to be able
6 to understand the response curves for the direct mail
7 pieces. I think aggregate information broken down by as
8 many possible buckets as possible for that would be
9 helpful.

10 We also do a lot of packages and flats that we
11 send out as part of our fulfillment operation. For
12 that, I think the information really needs to be more
13 real-time, the primary goal being the ability to help a
14 customer who's wondering where their order may be, being
15 able to pull up real-time information to be able to
16 understand it.

17 So we have talked a lot about Intelligent Mail.
18 We think that there's potentially a wealth of
19 information as you begin to get more and more mail
20 that's barcoded. And as the Postal Service begins to
21 really scan that information in the processing centers,
22 you could potentially, we think you could provide
23 anywhere from a nationwide aggregate performance measure
24 all the way down to a single region or single post
25 office, all the way down to really real-time information.

1 Our small businesses, with First Class Mail as
2 well as other classes of mail, it's one of the most
3 requested features is they'd like to be able to track
4 the mail piece through the mailstream. We think it's a
5 tremendous value add for small businesses, if that's
6 possible and when that's possible. We think that same
7 data and information could be easily accessed and be
8 able to generate reports and information about
9 performance standards for the Postal Service.

10 COMMISSIONER GOLDWAY: Can I have one more question
11 on service standards and then I'll cede the floor?

12 Several people in the Kansas City hearing as
13 well have mentioned the issue of the Postal Service
14 imposing mandates for preparation of the mail that cost
15 the mailers money. This is the first time I've heard it
16 in the context of as a service standard issue, because
17 basically what you're saying is if they're going to keep
18 at the cap and maintain a certain service standard
19 without costing them money, they're going to make you
20 pay for the service standard.

21 So I'm wondering whether, in establishing
22 service standards, we need to assume that there's a sort
23 of existing baseline as to what mailers currently do to
24 prepare their mail? But that seems rather rigid to me.
25 So how do we protect you from impositions of mandated

1 costs but not create a rigid structure that limits the
2 ability of both you and the service to implement new
3 ideas that may cost or save money on either side?

4 MR. HILLER: Commissioner, one thing I'd offer
5 is that -- and you see it in the nature of the question
6 that you asked -- it's because it's partly about our
7 business practices as mailers and it's partly about the
8 business practices of the Postal Service. And it really
9 is something you need to look at on a combined basis.

10 And technology is changing so many things, it
11 changes a lot in our business and certainly at the
12 Postal Service too. And I think we have to view it --
13 and I get the sense, which is very positive from the
14 Commission, it's how you view it -- that this is
15 essentially a real business partnership. And that in
16 the service standards and how they get articulated and
17 how they might change over time, that ought to be a
18 good, positive, collaborative experience.

19 And obviously you can't do that with everybody
20 every single day, but on major types of changes that can
21 be done on the way we do business and you do business,
22 we ought to find a good way to bring the best of the
23 best on both sides together and reflect those both in
24 the expectations about how we present ourselves and
25 present the mail to the Postal Service and then in terms

1 of what we could expect, service-standard-wise, from the
2 Service.

3 MR. CARPER: One other thing is in thinking of --
4 the Postal Service is bringing forth the intelligent
5 barcode that they say is going to give them all the
6 information they need to track mail. I think it
7 behooves the mailers to be able to do their best to take
8 advantage of that technology and that intelligence
9 that's there, but give us a break when we do invest in
10 time and equipment and process to do that work, give us
11 a break in what we're doing, because we're preparing
12 this for the Postal Service so that they can capture the
13 data. Let us be able to capture the data too, and give
14 us a break on what we're for paying for it. Help us to
15 take advantage of this. We have to invest in equipment,
16 manpower and resources to do this, so give us a break.
17 We're doing the work for you. Give us a break and help
18 us in that point of what we pay to do that work.

19 VICE CHAIRMAN TISDALE: You have just brought up a
20 very interesting point about the Intelligent Mail
21 barcode. I'd like to ask you and Mr. McBride, who
22 mentioned it earlier, that it was very expensive to put
23 that Intelligent Mail barcode on the mail now. I think
24 what you said was, it was more expensive to do that than
25 to handwrite the addresses. Can you address that a

1 little more for me?

2 MR. MCBRIDE: Yes, I was really referring to our
3 customers. Our technology we built allows you to print
4 postage directly on an envelope. We always
5 automatically cleanse the address using CASS certified
6 software and add the barcodes, including the IBI as well
7 as the POSTNET. We also add CONFIRM to some mail
8 pieces. So we pre-barcode all the information.

9 When I referred to that being more expensive
10 than the alternative of handwriting your address and
11 putting a stamp on, it's that Stamps.com as a company,
12 in order to make a profit, we have to charge a service
13 fee to use our service. So that costs the customer more
14 than visiting a USPS retail location, because they pay
15 41 cents. Through us they pay 41 cents to buy a stamp,
16 and then on top of that they have to pay a service fee
17 to us.

18 So the small businesses as well as large
19 businesses and medium-size businesses all have to have
20 some form of investment in either technology --
21 hardware, software -- in order to be able to provide
22 this barcoded information and do the address cleansing,
23 and small businesses are no different.

24 So that's why we really think that there is
25 value to the Postal Service of doing that work. The

1 value is there, we believe, all the way down to the
2 single piece, and we think that that value should be
3 recognized through a discount or an eligible discount
4 for these types of businesses.

5 COMMISSIONER GOLDWAY: And a discount is also what
6 you were talking about?

7 MR. CARPER: I think so, because the University has
8 invested in new ink jet technology so that we can --
9 I've been told that we have the ability to print the
10 intelligent barcode. We're investing in new software to
11 meet the requirements for the Postal Service to help
12 them control costs. And I think with that investment,
13 as a small mailer, encourages us to take advantage of
14 that technology and stuff in the fact that we get some
15 rate breaks. It costs us less to mail the material once
16 we're doing the work. Give us an advantage of that.
17 And I encourage the Commission to work with the Postal
18 Service to encourage that in service standards and what
19 we're doing for the Postal Service.

20 CHAIRMAN BLAIR: I think you can see that service
21 standards are on our minds as well as your minds, so I
22 appreciate the comments that you've given us. That will
23 help us as we move into that consultation later on this
24 summer.

25 Commissioner Tisdale.

1 VICE CHAIRMAN TISDALE: Yes, I did have another area
2 that I wanted to address, and I think Mr. Hiller
3 addressed it. And it was concerning the difference in
4 the handling of mails between the saturation and high
5 density, and I was wondering if you might have any
6 suggestions as to, once FSS is in place, what would be
7 your suggestion as an alternative to running high
8 density mail through the FSS system?

9 MR. HILLER: Well, it seems to me that at least the
10 type of high density mail that I'm familiar with, and in
11 the package, in the way that it's prepared, the best way
12 that it would continue to be handled would be directly
13 to the local distribution center.

14 I understand there's going to be some testing
15 of the equipment, but -- and I'm not an expert in this, and
16 I know the systems are new. But my understanding is
17 there's a significant question, first of all, whether
18 the high density type of the inserts that we're talking
19 about can even effectively be run through the new
20 machinery, as distinguished, say, from magazines or
21 other more sort of singular pieces of publications.

22 These are very thin. They contain a number of
23 other slip sheets in them. And the idea of millions of
24 these things being run through the machine at the
25 central office, I think, raises a significant

1 operational question I can't directly address, but I
2 understand there's a major question about whether that's
3 even practical from an operational standpoint to do it
4 that way.

5 On the other side too, it seems to me there's
6 so little difference, if you just look at them
7 practically, between the package that we got that are
8 the saturation ones that are 90 percent or more, and
9 you'd have some that are 88 percent, and they're going
10 in different directions, well, just from an operational
11 standpoint, it would seem there's not that much
12 difference in the bundles.

13 Now, I get that the classifications always take
14 some line drawing and you are going to have some things
15 on one side and some things on the other. But given the
16 enormity of the volumes of the flows, I have trouble
17 believing that from an operational standpoint, it's
18 going to make a lot of sense to do one package one way
19 and one almost identical package another way.

20 Third observation being, which I think I
21 touched on earlier, my sense is that down on the ground
22 level where the local distribution center is and with
23 the carriers, it's just -- and we've got, you know, the
24 200 or 300 or whatever the number of these things all
25 printed, they're all in exact walk sequence -- that the

1 easiest thing operationally for the carriers and for the
2 Postal Service is to do them both the same way and to
3 take the packages out in the truck, and as you're going
4 by the houses, just do them.

5 And, again, no sense, seems to me, in taking
6 one package because it's got three more houses in it and
7 one package because it's got three less houses in it and
8 send them to different parts of the state so they can
9 find their way back to the same carrier a couple days
10 later. I just don't get that.

11 VICE CHAIRMAN TISDALE: So it sounds like you're
12 saying that dropping those high densities at the DDU is
13 still the best option?

14 MR. HILLER: I think so. Based on everything we
15 know, we're certainly, you know, in the spirit I talked
16 about --

17 VICE CHAIRMAN TISDALE: At least in your particular
18 case.

19 MR. HILLER: Yes, given the nature of those
20 packages, absolutely.

21 VICE CHAIRMAN TISDALE: What about you, Mr. West?
22 Have you had any experience with the high density rather
23 than just Standard Mail?

24 MR. WEST: I don't have any experience with
25 saturation. Approximately 87 percent of our catalogs,

1 total volume, goes out at the HDCR rate, and our
2 anticipation or expectations out of FSS are -- you know,
3 I appreciate Mr. Hiller's concern that putting
4 saturation and high density together is a real issue,
5 but I can't really speak totally to that. I have other
6 concerns about FSS and its deployment and how it's going
7 to affect us.

8 COMMISSIONER GOLDWAY: Yours were more around
9 seasonal issues.

10 MR. WEST: Well, I do have seasonal concerns about
11 the program in total because this represents a huge
12 investment on the part of the Post Office, and myself
13 and everybody I know in the industry fully supports the
14 decision and moving in this direction because it's one
15 of the biggest cost-saving initiatives the Post Office
16 has seen in 30 years.

17 But I have concerns about the program, and like
18 at the seasonal level, FSS is going to require a lot of
19 capabilities at the peak volume periods to handle
20 standard flat mail. They're promising one-day
21 turnaround. You deliver it to the machine, and it's out
22 there, the carriers have it the following day. That may
23 be fine in the months of May and June when volume is
24 low, but is there going to be the machinery to handle
25 that volume in the months of October, November and

1 December? The difference in volume is very dramatic.

2 So I'm concerned that you may even have a lot
3 of unused equipment at one time of year just to satisfy
4 two months of the year or three months of the year at a
5 later period. So I have concerns about that.

6 Plus the fact that FSS is not going to be
7 deployed -- ultimately not deployed to all the zip codes
8 in the United States. So there's always going to be a
9 difference in handling. As I understand, its ultimate
10 goal is to serve approximately 85 percent of standard
11 flat mail on the machines, so there's still 15 percent
12 out there getting a different kind of handling.

13 VICE CHAIRMAN TISDALE: Let's just add one last area
14 that I really wanted to address, and I appreciate your
15 comments.

16 You talked about NSAs and possible ways of
17 expediting those as opposed to the present system. Can
18 you address that a little bit more or give us some idea
19 of what you might have in mind?

20 MR. WEST: I guess probably the best example is
21 there's very little guidance. I've been looking at this
22 for over a year, but there's no regulations and no rules
23 about what I'm to be doing with this or how I'm to
24 approach it. There's not been a lot of staff at the
25 headquarters level that's been dedicated to it. So

1 there's kind of little guidance. It's kind of left up
2 to come to us with something and we'll give you our
3 ideas, but I don't know how to consider and plan for the
4 economic considerations of this.

5 So in many ways it's kind of like, I know the
6 benefit is there, but I feel like I'm looking into a
7 black box and I don't know exactly what's going to have
8 to be considered in total.

9 VICE CHAIRMAN TISDALE: Now, you also indicated that
10 you thought the account managers should be able to
11 address a full range of products from the Postal
12 Service. Would that include the possibility of being
13 able to discuss an NSA with you?

14 MR. WEST: I think they should -- not to the detail
15 that an NSA ultimately is going to have to go, but I
16 think an account manager should have a better
17 acquaintance with the NSA process and what it's all
18 about, provide guidance.

19 But, here again, they need guidance in order to
20 do that job, and that guidance or that documentation
21 simply isn't there at this point. I have not seen a
22 form or anything to tell me what exactly are the steps
23 I'm going to have to go through. It all comes from, at
24 this point, someone outside of the Postal Service.

25 VICE CHAIRMAN TISDALE: Thank you.

1 CHAIRMAN BLAIR: Thank you.

2 Commissioner Acton.

3 COMMISSIONER ACTON: I have a couple of questions
4 and may be a comment or two. I'm particularly interested
5 in Mr. McBride's discussion about the small business
6 aspects of this consideration.

7 By the way, I'm a big fan of your business
8 plan. My friends and family use your customized
9 PhotoStamps for wedding invitations and event planning,
10 and it's just a great, great facility.

11 MR. MCBRIDE: Thank you.

12 COMMISSIONER ACTON: You mentioned the importance of
13 encouraging market tests of experimental products. I'm
14 wondering if there are any particular products or
15 services that you believe the Postal Service should be
16 working on testing in that regard now.

17 MR. MCBRIDE: We see market tests as a really
18 important part of the Postal Service in the future
19 development of new revenue. Of course, people are
20 familiar with our product PhotoStamps. It started and
21 is continuing to be a part of a market test, and to date
22 that product has brought in we think close to
23 \$20 million to the Postal Service, which we estimate as
24 much as 50 percent of that is brand new revenue. So we
25 just would like to urge the Commissioners to try to put

1 new regulations in place for market tests by November of
2 this year so that any market tests may proceed starting
3 in January of next year.

4 We certainly would like to talk to the Postal
5 Service and approach them on various ideas we have
6 around doing some market tests for forms of Intelligent
7 Mail and other things like that. But primarily we just
8 want to make sure that the future revenue sources which
9 come from today's market test products are focused on as
10 well in this process.

11 COMMISSIONER ACTON: Mr. Carper, you, I believe,
12 talked about the need for an annual rate adjustment and
13 the notice that the Postal Service may provide a typical
14 mailer of that coming change.

15 Is there a particular time of year that you
16 think would be more helpful to have notice of that?

17 MR. CARPER: I'm not sure of the rest of the
18 gentlemen sitting here, but since our fiscal year
19 actually starts in the middle of the year, having notice
20 of that in advance so that we know that, let's say, a
21 rate increase is going to take place in June, knowing
22 that early enough so that I can plan that to tell my
23 people when they're planning their budgets for mailing
24 that the postage is going to increase at this particular
25 time, and so they will need to make sure that they plan

1 that for the upcoming fiscal year.

2 The law stipulates about a 45-day review
3 period. I think that's awfully short. And I'm very
4 concerned about a review period and then implementation
5 of the time frame of that because of making budget
6 adjustments and also getting vendors able to produce
7 software so that we can continue to take advantage of
8 discounted rates are of concern.

9 But I would like to see the Postal Service have
10 an annual increase and perhaps propose that in
11 January with an implementation, like they did this year,
12 around May or June. So that gives us opportunity to
13 plan and prepare for the coming fiscal year. Because a
14 May or June implementation of rates is not going to
15 affect us greatly for that fiscal year, but the coming
16 fiscal year it will. And we need to have time to get
17 that into the planning process, because our fiscal year
18 is set about in January/February, where we plan for the
19 next fiscal year and set our budgets in place. So
20 having that information upfront in that time frame where
21 we know that we're going to face a CPI increase,
22 roughly, then we can plan that for the upcoming fiscal
23 year.

24 COMMISSIONER ACTON: Mr. West is proposing a
25 four-month notice, 120 days or something like that.

1 Would that fit your schedule?

2 MR. CARPER: That would be helpful, yes, to have
3 that time frame.

4 COMMISSIONER ACTON: My last comment -- it's not a
5 question -- Mr. Hiller, goes to your views about
6 negotiated service agreements and the need for some sort
7 of prior review by the Regulatory Commission of those
8 service agreements before they are enacted, which is a
9 bit of a different approach and philosophy from the way,
10 for instance, the flexibility of the rates is being
11 proposed now. Congress has empowered the Postal Service
12 to be able to set their own rates and then have us do a
13 post hoc review.

14 So I'm wondering, when we get to that
15 consideration, we're going to have to try to rectify
16 that sort of conflict in thinking that may exist in some
17 folks' minds. I'm wondering if you could talk to that.

18 MR. HILLER: Sure. I think that's a really fair
19 question. I think the answer may lie in the difference
20 between general rates of, if not universal
21 applicability, at least common and fairly broad
22 applicability, and what you have on the other hand,
23 where somebody is coming in and asking for a special
24 deal.

25 By its nature the -- of the general rates that

1 are going to be sort of same rules for everybody, I
2 think you get less risk of competitive mischief, less
3 risk of harm to the marketplace and consumers than when
4 somebody is basically coming in and saying well, the
5 general rate is the general rate, but here's the deal I
6 want and this is why it's good. And they wouldn't be
7 doing it if it weren't different and more advantageous
8 to them than the general rate.

9 And so I think not everybody's, you know, free
10 to come in and pitch their ideas for how best to be
11 regulated, but I think both rationally and in fairness,
12 when somebody is asking to come in and cut something
13 that's different from the general rule that applies to
14 everybody else, the risk of harm is that much greater
15 and the nature of the scrutiny to the specifics of the
16 unique deal that's being pitched is something that
17 deserves the scrutiny and, in our view and suggestion,
18 the review prior to it going into effect by the full
19 Commission.

20 COMMISSIONER ACTON: Thank you, gentlemen.

21 Thank you, Mr. Chairman.

22 CHAIRMAN BLAIR: Thank you.

23 Commissioner Goldway?

24 COMMISSIONER GOLDWAY: Tony, did you have a
25 question?

1 COMMISSIONER HAMMOND: Go ahead.

2 COMMISSIONER GOLDWAY: I wanted to follow up on a
3 couple of the issues with implementation. I think
4 there's some confusion in the legislation about the
5 45-day review and the 45-day announcement of rates. I
6 think it's not clear to me whether, if we were to review
7 them and say they weren't good, and then would the rates
8 get delayed.

9 And then you were proposing, Mr. West, that
10 there be some sort of more public consultation about
11 potentially what the rates would be that the Postal
12 Service would engage in before they announce the rates,
13 as well as a 120-day notice.

14 So where does the 45-day review come in, in your
15 proposal? Where does the start date for notice of the
16 actual rate and its implementation begin? What kind of
17 consultation should the Postal Service provide to either
18 the Commission or to the mailers in advance of when it
19 announces its rates? I know we don't want to have the
20 same cumbersome system we've had in the past, but it
21 does appear that the law condenses the process to such a
22 degree that some areas are unclear and some areas are
23 perhaps ignored.

24 So I wonder whether you have any thoughts now
25 about that or, if not, whether you might go back to your

1 own drafting tables, your own calendars, and give us
2 some additional ideas on what you think works best in
3 terms of consultation, notice, review.

4 MR. WEST: I guess maybe I could clarify. I'm
5 looking to 45 days as just the minimum for the time
6 process. I'm asking to consider the 45-day notice out
7 further, to about 120 days.

8 COMMISSIONER GOLDWAY: So it wouldn't be 120 plus
9 45?

10 MR. WEST: No. No. It would be, instead of 45, I'm
11 asking that you consider something more like 120 days.
12 I say 120 days. I know the postal management considers
13 that considerably lengthy. So there has to be room for
14 compromise. But I'm just saying 120 days is not an
15 unreasonable time period in the way we do our business.
16 But that would be 120 as opposed to the 45.

17 And somewhere, the requirement of formal
18 notification of the law may be unclear. So I think we
19 need some guideline around that. But I'm just looking
20 for more than 45 days to know about a pending increase
21 and, once we get the firm notice what that will be, when
22 it would be implemented.

23 COMMISSIONER GOLDWAY: So then the other question
24 is, if we have a CPI, you say you want an annual. Would
25 that be, let's say, at January of every year, but the

1 rates would go into effect in May as you want, so you
2 would know for five months at least what the band was;
3 you wouldn't necessarily know what the actual --

4 MR. WEST: Yes, that's correct.

5 COMMISSIONER GOLDWAY: Is that sort of what you were
6 proposing?

7 MR. WEST: Yes, that's what I'm proposing. Perhaps
8 a January to January annual CPI. If that's 3.5 percent,
9 then that would be the cap on what we'd be expecting for
10 the increase later in the year.

11 COMMISSIONER GOLDWAY: All of you know that within
12 your class, even if the band is 3.5, some people may get
13 more and some people may get less. So it's not just the
14 CPI. You're all aware of that.

15 CHAIRMAN BLAIR: And there also --

16 MR. WEST: We're aware of that. I hope my peers are
17 as well aware of that as I am.

18 CHAIRMAN BLAIR: The timing of these increases is
19 the timing of the CPI. When you measure the CPI from
20 what point to what point and how that's done are all a
21 subject matter of the additional comments that we
22 requested. And I believe our reply comments are due on
23 July 3.

24 But it shows you the complexity with which
25 we're addressing this problem of timing, and also when

1 the rate increases go into effect, we have an annual
2 compliance report. So you want to make sure that what
3 isn't picked up in the 45-day review process is picked
4 up in terms of the annual compliance report.

5 These are all things that we're going to be
6 sorting out over the short time frame over the next few
7 months, but that gives you kind of the flavor of what
8 we're looking at right now.

9 COMMISSIONER ACTON: It sounds to me that with
10 respect to the issue of the annual consideration of CPI
11 that you guys, when you have an opinion, it is that the
12 average is a better approach than the point to point.

13 MR. CARPER: I would prefer an annual increase, an
14 annual average.

15 MR. HILLER: I would defer to the experts on that
16 subject.

17 CHAIRMAN BLAIR: Commissioner Hammond?

18 COMMISSIONER HAMMOND: We've covered quite a bit
19 here, but I have one broad concept question, if any of
20 you or all of you would like to comment on it, on how
21 any potential change in what we at least believe we
22 currently have in the postal system today, and that's
23 the whole concept of universal service for all
24 Americans. And because of the reform legislation, the
25 Postal Service and us as a Commission, and possibly

1 ultimately our elected representatives, are going to be
2 looking at this issue down the road.

3 But would any of you like to discuss what kind
4 of effect it could have on your particular operation if
5 someday universal service was no longer a given? I
6 mean, you all ultimately depend on a customer for
7 success. Would anyone like to talk about what kind of
8 difference it might make if that were to change someday?

9 MR. HILLER: Well, certainly in our case where, in
10 serving the readers and users and advertisers we have in
11 our community, we're pretty much about universal
12 service, reach. We've got to get, for all intents and
13 purposes, to everybody in the community. We do
14 5 million households in the Southern California area.
15 Currently 4 million plus of that is through our
16 partnership with the Postal Service. We do
17 about between 800,000 and a million in paper, between
18 ourselves and we work also with some of the other
19 newspapers in Southern California. So in terms of
20 getting the word out, the news of the day as well as the
21 advertising messages, we're all about universal service
22 and currently very dependent upon you all as our
23 partners in executing on that vision.

24 So if you stop doing that, either people aren't
25 getting some of the news and the advertising or we've

1 got to find alternative distribution, means alternative
2 delivery, private delivery, call it what you will. But
3 as things stand in the way that things are currently
4 working, our devout wish is that the Postal Service
5 continues to be a great partner and available to us in
6 reaching all the people that we need to reach in
7 Southern California.

8 MR. CARPER: As an educational institution, I think
9 it's vital for us to have a universal service because we
10 don't just recruit in the large metropolitan areas. We
11 recruit in the small rural areas across the country, and
12 whether it's standard mail we're sending to them or
13 first class mail we're sending to them, we rely on the
14 Postal Service to get the message to them and to present
15 our opportunities for an educational lifestyle to
16 individuals that are in rural areas.

17 And we depend on that. It's part of our
18 lifeblood in doing our recruiting for first-year
19 students. And our university mission is to touch
20 everyone that has the opportunity to attend and receive
21 a higher education.

22 And who knows? That individual that may live
23 in some rural area of the country may be the next great
24 statesman or scientist or something of that nature, and
25 if we don't have that service, we're going to be missing

1 great opportunities.

2 MR. MCBRIDE: From our point of view as a small
3 business and as representing the small businesses in our
4 customer base, universal service means a couple of
5 things. If a mail carrier visits for delivery every
6 day, it also means he's coming as a potential pickup,
7 and a lot of our customers, a vast majority of our
8 customers, either utilize the mail carrier or blue
9 collection box as a way to induct mail into the
10 mailstream.

11 So they're using our service to prepare their
12 mail and then handing it to the mail carrier as he
13 visits each day as an important part of a home-based
14 business or a small business, and if that were to be cut
15 off, certainly that would impact these individuals who
16 expect to be able to do that at least every business
17 day.

18 Of course Saturdays are maybe not quite as
19 critical for a small business, but I think it's
20 important to try to preserve that as much as possible.

21 MR. WEST: I would just offer to consider the global
22 position of the Post Office in the United States economy
23 and the culture today. The Postal Service has served
24 the U.S. public six days a week probably since its
25 inception, and right now the Postal Service is trying to

1 position itself to move into the future and really
2 become a more viable business concern and maintain the
3 level of service and the universal service it's got
4 right now.

5 If that were to start to be altered, my fear,
6 as a mailer I could have concerns about, say, if we lost
7 one day a week. If service was cut from six days down
8 to five, that's going to have some operational issues we
9 would have to learn to deal with.

10 But on the broader basis, the broader
11 consideration of the American public, I would just be
12 concerned as a general consumer user of the Postal
13 Service that you're coming along, saying now we're going
14 to raise your rates every year on a fixed date or some
15 sort of fixed scheduled, but at the same time, I'm
16 sorry, but we're going to make you walk half a block to
17 your Post Office. And by the way, we're not going to
18 come and deliver your mail anymore on Saturdays. I
19 think that could cause some concern about the reputation
20 and the service levels of the Postal Service when
21 they're trying to move forward.

22 CHAIRMAN BLAIR: The Commission, in addition to
23 having to establish a new ratemaking system, also has a
24 number of reports that it's required to undertake and
25 give to Congress over the next five years. One of those

1 reports that's due in probably about a year now is a
2 report on the monopoly and the universal service
3 obligation.

4 So I think your comments along the line,
5 especially on the five-day versus six-day a week
6 delivery, are important for us because my question is,
7 in looking at things like that, what would you want us
8 to look at? If you were in our position, what would you
9 recommend that we be looking at in terms of reviewing
10 the universal service obligation, and even the monopoly?

11 MR. WEST: I would go to the public and ask them how
12 they would react. Ask my mother and father how they
13 would react. If the Post Office is going to cut their
14 service, what would they think of the level of service,
15 and does the USPS, should they still maintain the
16 monopoly if they're not going to do that any longer? Go
17 out to the public they serve.

18 MR. HILLER: I think that's a great point. Once
19 again, going back to the ultimate users, the citizens of
20 America who have been so long and well served, and see
21 what they think.

22 And my sense is people also know that some
23 things change. These days a lot of things change. And
24 ways we do things in the newspaper business -- we
25 created great consternation when we ended universal

1 service for the television listing book recently that
2 had been in the paper -- not quite since Ben Franklin
3 invented the Post Office, but for a long, long time,
4 and, you know, it's an issue for people. All change is
5 an issue for people.

6 But I think what we've got to do is have a
7 conversation with the users and with the public about
8 these days, the way people live, the way people get
9 their mail and products and other things distributed,
10 what are their expectations, what are their real needs,
11 and what things might be changed, while still serving
12 those real core needs people have.

13 COMMISSIONER GOLDWAY: Your comment, Mr. West, about
14 FSS, for instance, which is that it's only going to be
15 provided for 85 percent of the zip codes or 85 percent
16 of the volume, means that everybody might get their
17 mail, but some people will have it at a lower delivery
18 standard than others. Because that's part of the issue
19 too. To what extent do we allow for variations in time
20 for delivery to different places? What do we
21 acknowledge that's the fact already? Like going to
22 Hawaii just takes longer than the three-day first class
23 service that the Postal Service announces. And what
24 variations are possible?

25 One of the definitions of First Class service

1 is that a First Class letter gets anywhere in the
2 country at the same price, and you gentlemen are asking
3 about discounts for worksharing at First Class Mail.

4 That's going to differentiate First Class Mail even
5 further.

6 So the question of universal service really
7 goes to a whole range of different issues: Five-day
8 service, pickup service, how far we go to everybody's
9 home, and the level of service that's provided at what
10 rate.

11 It's all going to be very interesting for us.
12 I think we're all hoping that the new law will show that
13 the Postal Service can do the things it's done even
14 better, that the discipline of the CPI will make them
15 more efficient, that their flexibility in setting rates
16 will get the marketplace to use them more, and we'll
17 find ways that provide service to everybody at a better
18 level.

19 But it could well be the opposite, so we're
20 going to be monitoring it.

21 CHAIRMAN BLAIR: There's also the discipline of the
22 regulator, and that's one of the reasons that we're out
23 here.

24 COMMISSIONER GOLDWAY: Yes.

25 CHAIRMAN BLAIR: I think one of the key aspects of

1 the new law is the compliance report that the Commission
2 will be required to put forth every year. And my
3 question to the panel is, what would you like to see in
4 that compliance report? We're required to give this
5 report to Congress on an annual basis, and the
6 President, and if you were in our shoes, what would you
7 be looking at or what recommendations would you have for
8 us?

9 MR. HILLER: Well, I think good measurement, good
10 metrics, assuming that there's been a robust
11 conversation about service standards and service
12 expectations. I think having it in a usable way, very
13 good data that then the public and the customers and the
14 partners can use to sort of assess how that performance
15 level translates into their own service would be one
16 thought.

17 MR. CARPER: I would agree that give us the
18 information that has been agreed upon as what the Postal
19 Service is going to do. And let us as business mailers
20 know how they're doing, the transparency. Let us know
21 what is happening, what is being accomplished, so that
22 we can make adjustments in what we do and how we mail.

23 If the Postal Service is not meeting a
24 standard, I will assume that you would hold their feet
25 to the fire on that aspect in the report to Congress.

1 But we as mailers then can make adjustments to what we
2 do to try to help the Postal Service meet their
3 requirements and also get our mail delivered when we
4 want it delivered, knowing that there may be an issue in
5 some places that they're working on. Let us see that
6 clearly in the report.

7 MR. WEST: I would agree with both of those. And
8 you mentioned the reporting in terms of compliance. But
9 I would offer that the compliance should really extend
10 to reporting on innovation and support some of the
11 things that Mr. McBride talked about. Put forth to the
12 Congress and the President, present them with what the
13 Post Office is doing and are being proactive about in
14 terms of moving themselves ahead and forward.

15 I think the idea of a lot of things that
16 Mr. McBride talks about and what his company does are
17 very exciting for the Post Office, and they're going to
18 help make that mail moment in the household more
19 exciting and really keep the American public interested
20 in receiving their mail. And I think it's important
21 that you would report to Congress and the President that
22 the Post Office is doing that.

23 MR. MCBRIDE: Thank you for your compliments.

24 MR. WEST: I'm not just trying to give you a plug,
25 but I think it's vital that we set forth that the Post

1 Office is really moving forward.

2 CHAIRMAN BLAIR: You just brought up an interesting
3 concept that we talked about last week, which is how to
4 bring value to the mail and what we could do to enhance
5 that mail moment. We heard some interesting ideas from
6 the panelists last week.

7 If you want to share anything on that, because
8 you have such a -- there are movements out there now to
9 limit what you receive in the mail. The do-not-mail
10 list, do-not-mail initiatives that you've seen from
11 state to state and the impact that it might have on the
12 Postal Service, not to mention upon the mailers
13 themselves.

14 What can be done and what can the regulator do
15 to bring more value to that mail moment?

16 MR. WEST: First I'd like to make a comment in terms
17 of the regulator's role with regards to do-not-mail, and
18 I hope that you're watching this issue very closely and
19 working with the Post Office and the postal management
20 to be sure that this is properly addressed and dealt
21 with. It is a serious consideration for my industry and
22 all of us here, and I hope that you're actively
23 monitoring the situation to make sure that it's -- I
24 don't want to say dealt with in the right manner, but
25 that it gets the attention that it warrants.

1 MR. MCBRIDE: I would echo that. Of course we've
2 talked a lot about Intelligent Mail, and the value of
3 that is I think that provides a lot of value added to a
4 small business or an individual home office in terms of
5 increasing the visibility of a particular mail piece, a
6 very important mail piece. I think that that increases
7 the value that customers find in the mailstream.

8 I think in terms of the compliance report, I
9 agree that we see and we focus all of our energy and
10 time on technology and technology innovation that we
11 think has brought a lot to the Postal Service, and we
12 think we have many ideas we'd like to continue to try to
13 push forward in terms of technology being able to
14 increase the adoption of Intelligent Mail, being able to
15 improve ultimately the service that people that use
16 Stamps.com and other PC Postage and other forms of
17 on-line mail. And that can be a critical part of being
18 able to advance the future of the Postal Service.

19 MR. WEST: Another thing that the Postal Service
20 needs to consider with regards to value is the value of
21 the Postal Service in terms of more timely delivery. I
22 think it's no secret that, for example, parcel post is
23 viewed as kind of like snail mail. It's one advantage
24 that UPS and others competitors have over the Postal
25 Service is monitoring and tracking. It's not a value

1 add, but that image and perception as part of mail

2 delivery is a deterrent, and addressing that will

3 enhance the value proposition of mail.

4 CHAIRMAN BLAIR: Any other questions or comments

5 from the Commissioners?

6 COMMISSIONER GOLDWAY: I think we have a lot of

7 homework.

8 CHAIRMAN BLAIR: We do.

9 On behalf of the five of us, I just want to say

10 thank you all very much. I think you understand the

11 gravity of the work that we have ahead of us. And your

12 participation in this hearing today and your continued

13 participation in this process has proven valuable. I

14 want to thank you for coming in and allowing yourselves

15 to be subjected to this kind of form of public cruelty,

16 as it might seem. But I really do mean this sincerely,

17 that what you've done and your thoughts that you've

18 offered today will help guide us as we go down this path

19 of establishing a new system of ratemaking. The last

20 one lasted for 37 years, and I hope that this one has a

21 good shot as well. So thank you all very much.

22 The hearing is adjourned.

23 (At the hour of 11:52 a.m., the

24 proceedings were concluded.)

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1 STATE OF CALIFORNIA)

2) SS.

3 COUNTY OF LOS ANGELES)

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6 I, Christianne Lee Fong, CSR 7559, a Certified
7 Shorthand Reporter in and for the County of Los Angeles,
8 State of California, do hereby certify;

9 That on Thursday, June 28, 2007, I did report
10 in stenograph writing all of the testimony and
11 proceedings in the foregoing hearing before the Postal
12 Regulatory Commission;

13 I further certify that the foregoing is a full,
14 true and correct transcript of said testimony and
15 proceedings;

16 I further certify that I am neither counsel for
17 nor related to any party to said action, nor in anywise
18 interested in the outcome thereof.

19 In witness whereof, I have hereunto subscribed
20 my name and affixed my seal of office this 9th day of
21 July, 2007.

22

23

24 CERTIFIED SHORTHAND REPORTER IN AND
25 FOR THE COUNTY OF LOS ANGELES
STATE OF CALIFORNIA